

From Forecasts to Checkout: Reflections on 2023 Holiday Retail Predictions



Overview

The 2023 holiday shopping season has officially ended, and consumers are packing away their holiday décor to peacefully collect dust until they are summoned again in November.

Let us unpack the Holiday sales and traffic results and see how accurate (or not) Ankura's "[2023 Holiday Consumer Sentiment Survey](#)" and "[Black Friday Shopping Pulse](#)" observations were.

The Inflation-Weary Consumer

The 2023 holiday season arrived with echoes of inflation and murmurs of uncertainty about the U.S. macroeconomic outlook. The front-half of 2023 unfolded as a careful tango between consumers grappling with cost-consciousness and retailers adeptly maneuvering through a promotion-fueled marketplace. We expected this dynamic to continue through the holiday season with consumers ready to attack their shopping lists at malls or online, but with a keen eye for value and discounts.

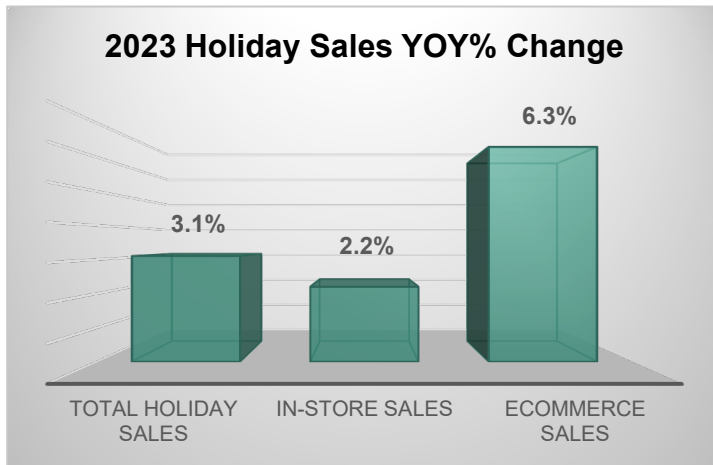
We predicted a **heavy emphasis on deal hunting and promotions** to support holiday sales and thus recommended that retailers be loud and proud about their **price-value offerings** as the shopper will be responsive.

Deal-hunting and promotions became the siren call for consumers this holiday season. As we accurately predicted, inflation was the omnipresent guest at the shopping table, prompting an unprecedented focus on value by stretching every dollar to its fullest.

Our consumer survey indicated that shoppers' economic sentiments were cautious going into the holiday season, with 55% of respondents stating that they were either **somewhat or very concerned** about their and/or their family's economic situation, and 47% stating that they see the **U.S. economy getting worse** over the next 12-months. We predicted that shoppers would be in abundance online, and a relatively strong number would also be walking stores, but with tighter grips on their purse strings and eyes open for discounts.

A “Nothing Spectacular” Holiday Spend

As preliminary reporting begins to trickle in, it appears that retailers achieved low-single-digit gains this past holiday season with sales increasing 3.1% YOY (over Nov 1-Dec 24, excluding autos and unadjusted for inflation).



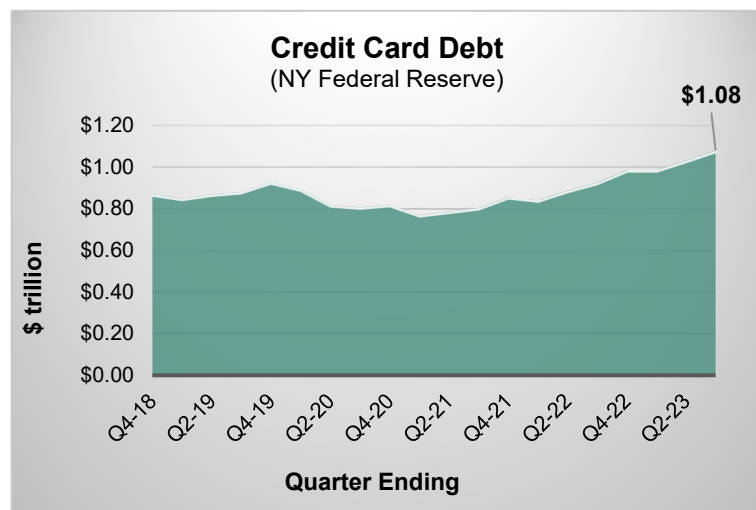
IN 2023, MOBILE DEVICES WERE RESPONSIBLE FOR THE MAJORITY OF REVENUE (50.05 PERCENT) GENERATED DURING THE U.S. HOLIDAY SALES SEASON.
Adobe. (November 28, 2023)

Source: Mastercard SpendingPulse™ 2023 Holiday Season Insights

Helped by Historic Credit Card Debt

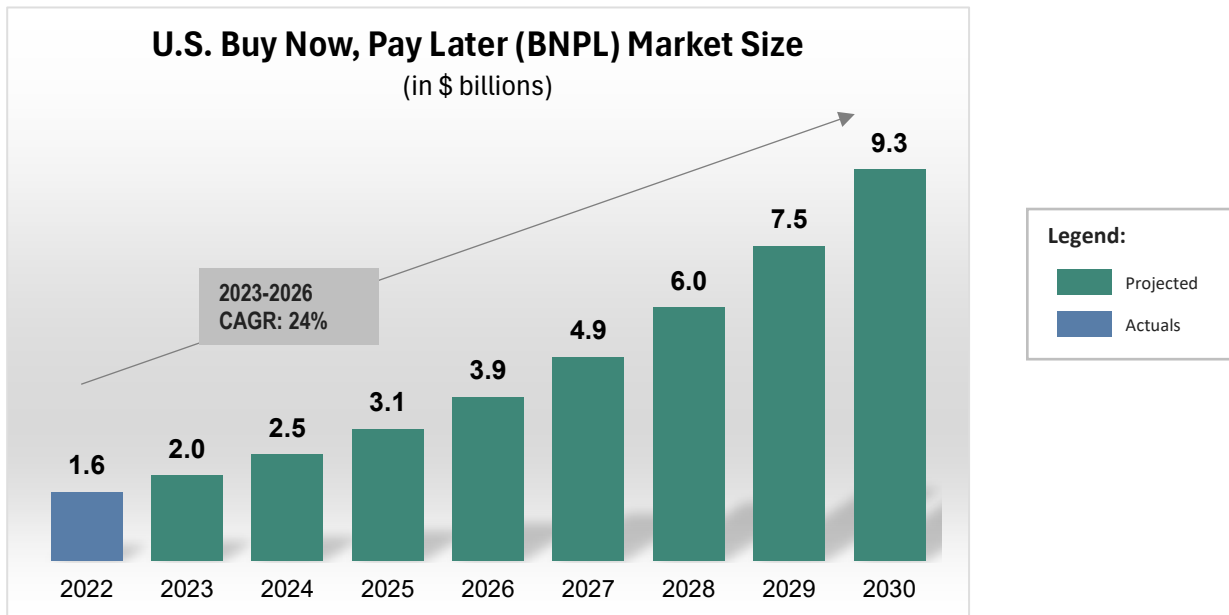
It wasn't just a keen eye for discounts, however, that helped consumers with their holiday shopping this year. The Federal Reserve Bank of New York reported that U.S. credit card debt reached \$1.08 trillion in Q3 of 2023, representing a \$154 billion year-over-year increase (the largest increase since 1999).

This historic jump in credit card usage going into the holiday season suggested that customers would be resolute in finding ways to tip toe through broader economic



headwinds and get their shopping done, even if through credit extensions and short-term financing.

While from a low base, “Buy Now, Pay Later” (BNPL) purchases experienced significant growth, essentially extending customers’ debt limits.

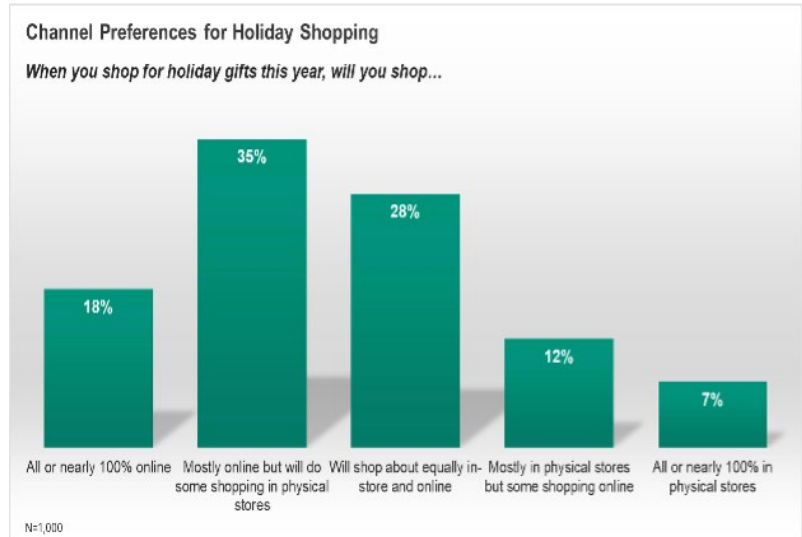


Source: Grand View Research

The Physical Store Still Matters

Direct-to-Consumer sales represented >15% of total retail sales in 2023, but that still leaves most sales supported through brick-and-mortar. Ankura’s “2024 Holiday Consumer Sentiment Survey” highlighted that while an “online-only” customer exists, stores remain relevant.

The high value placed on experiential shopping continues to grow among consumers, with 60% of survey respondents citing “enjoying the experience of shopping in stores” as a top reason they planned to shop mostly in physical stores this past holiday season (up from 48% in 2022). Additionally, shoppers appreciate the live help, immediate gratification, and simple returns that are part of the in-store experience.



Consumers were clearly excited to shop this holiday season, but we saw first-hand the siren song of the sale as the [Ankura Retail](#) team conducted site visits on Black Friday. Visiting malls and retail locations across 10+ markets, we saw that **mass merchants, warehouse clubs, and outlet malls** stood out with **notably higher foot traffic** compared to traditional malls and freestanding locations.

Even within traditional malls and lifestyle centers, the busiest stores were affordably priced and off-price fashion retailers (though there were crowds galore at Apple and beauty retailers like Ulta and Sephora). As such, it has been no surprise seeing mass merchants (Walmart, Target), off-price (TJ Maxx), warehouse (Costco), and outlet malls among this holiday season’s top performers.

Outlook for 2024

The echoes of inflation, rising credit card debt, and macroeconomic concerns are likely to linger into 2024, shaping spending habits and the retail landscape in the months to come. Understanding the complex interplay between economic anxieties, evolving customer expectations, and the persistent quest for value will be crucial for retailers moving forward. Focusing on thoughtful pricing, fostering trust through transparency and flexibility, and embracing experiences and innovation will be critical as retailers aim to forge deeper connections with cost-conscious shoppers.

Ankura is helping retailers focus on these key 2024 trends:

- 1) Price-value equation
- 2) Gross and selling margin management
- 3) Inventory management (right product at the right price at the right time)
- 4) DTC fulfillment (and returns) cost optimization
- 5) Growing customer LTV and optimizing nCAC and rCAC to acquire and retain customers

Although inflation rates appear to be settling into the 3% range, merchandise landing on many shelves today was likely purchased at higher COGS when inflation was rife in 2023. Thus, retailers will have to be particularly thoughtful about how they manage their inventory to preserve profitability in early 2024.

Retailers can embrace advanced analytics tools and AI to drive tailored, dynamic pricing and promotions to get cost-conscious shoppers to continue adding items to their baskets. Real-time price adjustments (based on demand, competitor pricing, and market conditions), dynamic bundling (offering discounts for buying related products), and an emphasis on their unique value proposition can help retailers drive up the perceived worth of their merchandise, ultimately helping to keep customer baskets full. This is only half the battle, however, as customers seek accessible payment options in the face of continued economic headwinds.

Customers will continue to be hyper-focused on shopping for value and discounts. With historic credit-card debt, alternative financing options will be top of mind for shoppers to ensure they get the products they want, when they want them. Based on November 2023 reporting from LendingTree's monthly BNPL Tracker, 42% of Americans said they expected to apply for a BNPL loan at least once in the next six months. Meanwhile, only 50% said that they were confident they could pay off the loan without missing a payment.

BNPL offers an opening for retailers to ethically capitalize on short-term financing options, particularly during highly promotional cycles, to continue driving conversion and customer loyalty. Retailers can implement new, or revise existing, BNPL programs that are flexible and transparent with reasonable fees. Moreover, they can accompany

financing options with friendly return and refund options, ensuring customers are able to adjust their purchasing decisions as needed.

While omnichannel strategy has been at the forefront of retail for several years now, the digital shopping landscape continues to evolve quickly. The rapid investment in, and advancement of, retail technologies, specifically AI and Generative AI, has led to increasing consumer expectations for a personalized, connected, and fast mobile-to-store shopping experience.

As a result of mobile commerce's continued growth, along with smart speakers and voice-activated tech, consumers seek voice-driven AI applications in retail environments to help them find products and support customer service.

In summary, the 2023 holiday season wasn't a crescendo. Sales results highlight that consumers are still spending, but economic headwinds continue to prevail.

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